

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1999

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

A. Accounting Changes

During fiscal year 1998-99, the State implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The provisions of the statement require the State Employees' Deferred Compensation Plan I (457) to be reported as an expendable trust fund. The effect of the change resulted in a reduction of assets and liabilities in the agency funds of \$1.9 billion and a decrease in long-term liabilities and an increase to the beginning fund balance of the expendable trust funds of \$1.9 billion.

Executive Order 1999-1, effective April 5, 1999, abolished the Michigan Jobs Commission, a principal department. The authority, duties, and responsibilities of the Michigan Jobs Commission were split between a newly created principal department, Career Development, and the Michigan Strategic Fund (MSF), an autonomous type I agency within the Department of Management and Budget. Remaining unexpended appropriation balances totaling \$101.1 million were transferred to MSF from the General Fund. The Executive Order also authorized creation of the Michigan Economic Development Corporation (MEDC), which was added to the State's reporting entity as a discretely presented component unit using the proprietary fund model. In May 1999, MSF transferred its net assets of \$162.7 million to MEDC in accordance with the interlocal agreement.

During fiscal year 1998-99, the State began reporting the Michigan Public Health Institute (MPHI) as a jointly governed organization, in accordance with GASB Statement No. 14, The Financial Reporting Entity. Previously, MPHI was not included in the State's reporting entity.

B. Restatements

For the fiscal year ended September 30, 1998, the Medicaid inpatient hospital liability was incorrectly reported in the General Fund. Because the error was noted during fiscal

year 1998-99, the General Fund's beginning fund balance was increased by \$21.9 million, from \$1.265 billion to \$1.287 billion.

For the fiscal year ended September 30, 1998, the Michigan Strategic Fund, a discretely presented component unit, did not properly record tribal gaming revenues, liabilities, and retained earnings totaling \$8.1 million. Prior year balances have been restated to correct these errors.

C. Other Changes

Rebates relating to Department of Community Health programs, totaling \$47.7 million in the General Fund, have been reported as expenditure credit rather than revenues, as in prior years. The change was made to more accurately reflect the nature of these transactions.

Because of changes in federal regulations, a portion of the Michigan Higher Education Assistance Authority's activities are reported as a discretely presented component unit, utilizing the governmental fund model instead of the proprietary fund model. In addition, as a result of Executive Order 1999-1, the Michigan

Strategic Fund's operations are reported as a discretely presented component unit, utilizing the governmental fund model instead of the proprietary fund model. Prior year information was not available to restate the affected financial statements for these items.

In previous years, the Liquor Purchase Revolving Fund, an enterprise fund, reported expenses for distributing liquor as "purchases for resale" instead of "salary, wages, and other administrative." Prior year balances totaling \$26.7 million have been reclassified.

In prior years, payments made by the State Building Authority Advance Financing Fund, a capital project fund, to component units were recorded as "expenditures" and "operating transfers to other funds" instead of "operating transfers to component units." Prior year amounts of \$13.2 million have been reclassified.